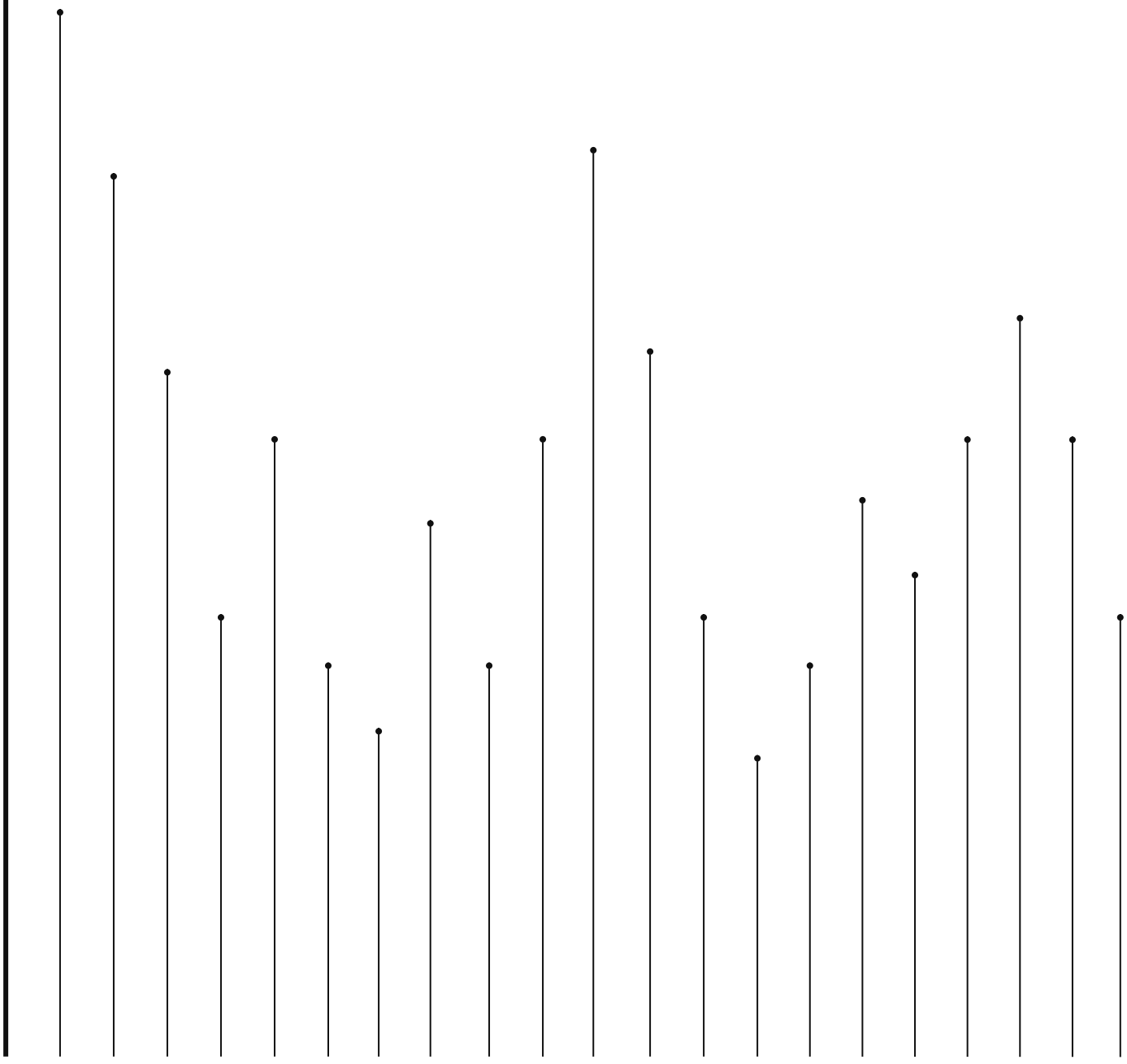
Finance & Economics Club
IIT Guwahati

# EXIDE

## Exide LTd



# SECTOR ANALYSIS

## MACRO-ECONOMIC FACTORS

### GDP FACTOR

The automotive ancillary industry in India significantly impacts the country's economy and is closely linked to the **broader automotive sector's performance**.

Here are some key points:

- **Contribution to GDP:** The industry contributes about **2.3%** to India's GDP, underlining its economic importance.
- **Interdependence with the Automobile Industry:** The prosperity of the automotive ancillary industry directly depends on the demand for two wheelers, cars, and commercial vehicles, reflecting the industry's cyclical nature.
- **Segmentation:** The industry is divided into three segments: **organized, unorganized, and exports**. Original equipment manufacturers (OEMs) primarily serve the organized market, which deals with high-value components and parts.
- **Revenue Sources:** The sector gains most of its revenue from **OEMs (61%)**, followed by the **aftermarket (18%)** and **exports (21%**). This diversified income helps the industry weather economic shifts.
- **Recent Performance:** In the fiscal year 2021-2022, the revenue growth rate of the Indian automotive ancillary industry was **21.14%**, which was lower than the **27.71%** growth experienced by other sectors.
- **Growth Outlook:** For the fiscal year 2022-2023 (FY23), the sector is predicted to rebound with a **14-16% growth rate**. Several factors, including robust demand, a shift towards new electric vehicles (EVs), and substantial investments from the **Production-Linked Incentive (PLI) Scheme**, are expected to drive this growth.
- **Capital Expenditure:** The capital expenditure in the automotive ancillary sector is expected to increase by **30% year-on-year** (YOY) due to factors like rising demand expectations and the push towards manufacturing new electric vehicles.
- **Automotive Battery Market:** In 2021, this market was valued at **USD 46 billion** and is projected to reach **USD 65 billion** by 2027, registering a **CAGR of 5.5%** during the forecast period (2022 - 2027).

### TAX

The **Union Budget for 2023** in India introduces significant changes concerning EVs and manufacturing of lithium-ion batteries. Here are the key points:

- **Customs Duty Exemption**: The budget removes customs duties on capital goods and machinery used for **lithium-ion battery production**, specifically for EV batteries. This action aims to decrease manufacturing costs for these crucial components, making them more affordable and accessible. By eliminating customs duties, the government aims to stimulate domestic lithium-ion battery production for EVs.
- **GST on Automobiles**: Currently, Indian automobiles are subject to a **28%** Goods and Services Tax (GST) rate, with an additional excess of **1% to 22%**. Although this rate remains unchanged in the budget, the removal of customs duties on key components like lithium-ion batteries could indirectly lower the overall cost of EVs.
- **Government's EV Commitment**: The government has reaffirmed its dedication to electric vehicles and its goal of achieving **30% electric mobility** by 2030. This commitment highlights a focus on promoting green transport and reducing fossil fuel dependence.
- **Encouraging Domestic Battery Production**: By eliminating customs duties on capital goods and machinery used in lithium-ion battery production, the government is promoting domestic battery production. This supports not only the EV industry but also aligns with the broader **"Make in India"** initiative, aiming to boost domestic manufacturing.

These budget measures aim to promote the **electric vehicle industry** and boost the local supply chain for essential components such as lithium-ion batteries. The government seeks to expedite EV adoption in India and meet its electric mobility goals.

## GOVERNMENT POLICIES

The recently announced **2021 Budget** has been generally met with positive responses from those within the automobile industry. Several key aspects of the budget have been lauded as substantial steps towards bolstering the sector, creating employment opportunities, and improving road safety.

The introduction of the **auto scrappage policy** has been one such widely appreciated move. This policy is expected to eradicate old, pollution-causing vehicles off the roads, thereby promoting a cleaner and sustainable environment.

Furthermore, the allocation of **1.18 lakh crore** for road infrastructure is seen as a significant move to improve the quality of roads, thereby leading to smoother rides and **less wear and tear for vehicles**. This, in turn, could increase the longevity of vehicles and reduce maintenance costs for owners.

Moreover, the **acquisition of 20,000 buses** through public-private partnerships is projected to improve public transportation systems, making them more reliable and efficient for everyday commuters.

Despite these promising aspects, the budget missed addressing certain key areas that were eagerly anticipated by the industry. The industry was hoping for a reduction in the **GST to offset the price increase** due to the transition to **BS-VI vehicles**. This transition was critical to meet stringent emission norms and to reduce the impact of vehicular pollution on the environment. However, the increase in costs due to the transition has been a concern for many.

The industry was also expecting substantial investments in **electric vehicles** and **charging infrastructure**. Despite the increasing global trend towards electric vehicles, the budget did not provide much-needed impetus to this segment.

Additionally, **high fuel prices** remain a concern. These are largely attributed to hefty taxes, which can dampen demand in the automobile industry as they raise the total cost of vehicle ownership and upkeep.

Overall, the budget has some **positive aspects** for the industry, but there are areas where it fell short of expectations, leaving room for future improvement.

# COMPANY ANALYSIS

## INTRODUCTION

**Exide Industries** is a worldwide leader in the production and distribution of stored electrical energy solutions. It has become a significant player in the battery industry, offering a broad range of batteries and energy storage systems for **automotive**, **industrial**, and **specialty applications**.

Operating in **over 80 countries**, Exide serves a diverse customer base worldwide, catering to varying needs and demands across different regions. The company prioritizes **technological innovation** and continuously allocates resources to **research** and **development**, ensuring it remains at the forefront of industry trends. This helps Exide to **exceed customer expectations**, reinforcing its position as a **global leader** in the market.

Despite competition from other major battery manufacturers, Exide sees growth opportunities in the shift towards electric vehicles and renewable energy storage. **Bharat Dhirajlal Shah**, the Chairman, and **Subir Chakraborty**, the Managing Director & CEO.

# SWOT

## STRENGTHS:

- Successfully established as a leading supplier of batteries to the automotive industry, with **most OEMs** using Exide batteries in their vehicles.
- Exide has initiated several projects to enhance **customer satisfaction**, **improve dealer management**, and **increase market share**.
- **Digital solutions** have led to cost savings and improved customer service.
- A widespread **Pan-India network** distribution.
- Exide industry successfully adapts to changing technology, with **Exide's R&D engineers** developing new products and technologies to meet emerging user needs.

## OPPURTUNITES

- The **Government's goal of 450GW** of renewable energy by 2030 and the **Ministry of New and Renewable Energy's** (MNRE) target of **40 GW** of rooftop solar solutions by **2026** bring substantial opportunities for our offerings.
- The **launch of 5G technology** has increased the demand for lithium-ion batteries.
- The growing need for **Battery Energy Storage Systems** (BESS), predicted to become a significant sector.
- Major opportunities are present in **Metro, Railways, Defense, and Data Centre sectors**. Another opportunity lies in converting existing nickel-cadmium technology into lead-acid technology based on application requirements.

## WEAKNESSES:

- The battery industry is **intensely competitive** with numerous domestic and international players. This pressure may require Exide Industries to **consistently innovate** and **maintain competitive pricing**.
- **Rapid advancements in battery technology**, such as **lithium-ion batteries** and other **energy storage solutions**, could threaten traditional lead-acid batteries, one of Exide's main product lines.
- A substantial part of Exide's revenue is generated from **supplying batteries** to the **automotive sector**. Any downturn in this industry can impact the company's financial performance.

## THREATS:

- The **ongoing fluctuations** in **input costs** and uncertainty about the **timely availability of imported items** may pose threats in the upcoming financial year. However, the **IUPS business** anticipates a surge in demand from emerging technological infrastructure.
- **Low-cost, small Indian manufacturers** with an advantage in **tender-based platforms** pose a threat in the **traditional lead-acid battery solutions market**.
- The **high logistics cost** and **supply chain disruption** have also impacted the company's profitability.

# RISK ANALYSIS

Exide Industries, faces numerous risks, which are listed below:

## INDIVIDUAL RISKS:

- **Lead price volatility**: As **lead** is a crucial raw material for lead-acid batteries, its **volatile prices** can impact Exide's profitability.
- **Competition**: Exide competes with various **domestic** and **international battery** manufacturers.
- **Technological changes**: The constant evolution of the battery industry necessitates Exide to keep up with new technologies to stay competitive.
- **Government regulations**: The Indian government imposes several regulations on the battery industry, with which Exide **must comply** to operate its business.

## SOLUTIONS:

- **Lead price volatility**: Exide can mitigate this risk by **hedging its lead purchases**, a financial technique that locks in a price for lead in advance, protecting Exide from **market fluctuations**.

- **Competition: Differentiating its products** and **services** and focusing on the **development of new** and **innovative products** can help Exide mitigate competition risks.

- **Technological changes:** Investment in **research** and **development** can help Exide develop innovative batteries and compete with the latest technologies.

- **Government regulations**: **Collaborating** with the **government** to ensure compliance with **all applicable regulations** can mitigate regulatory risks.

## IMPACT ON THE BUSINESS

- **Lead price volatility**: Changes in **lead prices** can affect Exide's profitability. If prices increase, Exide's costs will rise, **reducing profits**. Conversely, if prices decrease, customers may be less likely to purchase its batteries, also **reducing profits**.

- **Competition**: Competitors can **exert pressure** on Exide's prices and margins.

- **Technological changes**: Failure to keep up with **technological advancements** may result in **loss of market share** to competitors.

- **Government regulations**: Non-compliance with government regulations can result in **fines**, **penalties**, or even **business closure**.

## RISK MANAGEMENT POLICIES:

- **Hedging policy**: Exide **hedges its lead purchases** to mitigate the risk of price volatility.

- **Product development policy**: Exide **invests in research and development** to create innovative batteries that meet customer needs.

- **Regulatory compliance policy**: Exide ensures **business compliance** with all applicable regulations.

In addition to these formal policies, Exide **fosters a strong culture of risk awareness** among its employees, ensuring they are aware of the **company's risks** and are **taking steps to mitigate them**.

# BUSINESS MODEL

Exide Technologies, operates on a business model primarily focused on **manufacturing** and **distributing lead-acid batteries** for various applications. They generate revenue through the sale of **automotive**, **industrial**, and **specialty batteries**, serving sectors such as automotive, industrial, and transportation.

Key components of Exide's business model include:

- **Supply Chain Management**: Efficient **supply chain management** is crucial in the battery industry. Exide likely focuses on **optimizing** its supply chain to ensure **timely** and **cost-effective** sourcing of **raw materials**, efficient manufacturing processes, and **timely delivery** of products to customers.

- **Diversified Markets**: They target a diverse range of markets, including **automotive OEMs**, **aftermarket retailers**, **industrial users**, and **consumers**.

- **E-commerce Presence**: Like many companies, Exide likely leverages **e-commerce channels** to reach customers directly. This could include **online sales platforms**, **company websites**, and **digital marketing** to enhance visibility and accessibility.

- **Technology and Innovation**: The company's investment in **research** and **development** is pivotal for maintaining competitiveness and bolstering its **product portfolio**. This strategic approach allows the development of **cutting-edge battery technologies** tailored for electric vehicles and renewable energy storage solutions. Such initiatives not only drive technological advancement, but also reinforce Exide's commitment to **sustainability** and **pioneering solutions** for a greener future.

- **Global Presence**: Exide's international operations span across numerous countries, enabling access to a **wide array of markets** and **customer demographics**. This expansive global presence serves as a **strategic advantage**, facilitating the exploration of diverse opportunities and the cultivation of strong relationships with customers worldwide.

- **Investment in Marketing and Branding**: To maintain and expand its market share, Exide likely invests in **marketing** and **branding efforts**. This includes **advertising campaigns**, **sponsorships**, and other **promotional activities** to increase brand awareness and preference.

# PRODUCT PORTFOLIO

## 1. Automotive Batteries:

- **Car Batteries and Commercial Vehicle Batteries**: Exide provides a variety of batteries suitable for vehicles such as **passenger cars**, **SUVs**, **two-wheelers** and **commercial vehicles** like **trucks** and **buses,** as well as **EV batteries.**

- **Tractor Batteries**: These are specifically designed for **agricultural tractors**

- **Inverter Batteries:** Commonly used for **backup power** .

## 2. Industrial Batteries:

- **Motive Power Batteries**: Designed for **material handling equipment**, such as **forklifts** and **electric pallet trucks**.

- **Standby Power Batteries:** Suitable for **critical backup power applications** like data centers, telecom, and industrial UPS systems.

- **Railway Batteries**: Batteries designed specifically for **railway applications.**

- **Home UPS and Inverters:** Exide offers **UPS systems** and **inverters** for **residential** and **commercial use** to ensure continuous power supply during electrical outages.

- **Luminous Power Technologies**: A subsidiary of Exide known for **manufacturing inverters** and **power backup solutions**.

- **Battery Accessories and Solar Batteries**: Exide provides accessories such as **battery testers** and **maintenance products,** as well as **solar batteries.**

# FINANCIAL ANALYSIS

## RATIO ANALYSIS

| Balance Sheet | FY 21-22 | FY 20-21 | FY 19-20 | FY 18-19 | FY 17-18 |
|---|---|---|---|---|---|
| **Revenue (cr)** | 12382 | 10041 | 9920 | 10588 | 9186 |
| **Net Profit (cr)** | 765 | 758 | 826 | 844 | 668 |
| **EPS (INR)** | 8.99 | 8.92 | 9.71 | 9.93 | 7.86 |
| **Book Value Per Share** | 78.66 | 81.11 | 70.47 | 70.44 | 63.40 |
| **Dividend Yield (cr)** | 170 | 170 | 499 | 246 | 246 |
| **R&D (cr)** | 25.36 | 20.02 | 22.86 | 29.88 | 28.08 |
| **Cap. Ex.** | 597 | 349 | 484 | 679 | 763 |
| **Ratio** | | | | | |
| **ROCE (%)** | 11.76 | 15.6 | 17.0 | 19.4 | 19.5 |
| **P/E (Price/Earnings)** | 17.45 | 20.82 | 13.38 | 21.95 | 26.08 |
| **ROA (%)** | 35.10 | 7.87 | 10.01 | 10.32 | 9.03 |
| **Debt to Equity (%)** | 0 | 0 | 0 | 0 | 0 |
| **Quick Ratio** | 0.9 | 0.9 | 0.7 | 0.9 | 0.8 |
| **Operating Margin (%)** | 11.27 | 13.50 | 13.70 | 13.32 | 13.50 |

# COMPETITIVE ANALYSIS

| Name | Exide | Amara Raja | Eveready | HBL Power |
|---|---|---|---|---|
| **Market Cap** | 17,777.75 Cr. | 10,276.08 Cr. | 2,334.35 Cr. | 2,891.14 Cr. |
| **Net Profit** | 765 Cr. | 511 Cr. | 47.48 Cr. | 89 Cr. |
| **Revenue** | 12,382 Cr. | 8,696 Cr. | 1,206.75 Cr. | 1221 Cr. |
| **Share Price** | 209 Rs. | 602.90 Rs. | 319 Rs. | 104.40 Rs. |
| **No. of Shares** | 85 Cr. | 17.08 Cr. | 7.27 Cr. | 27.72 Cr. |
| **52 week high/low** | High: 211.25<br>Low: 130.25 | High: 668.15<br>Low: 438.05 | High: 393.20<br>Low: 268.35 | High: 121.75<br>Low: 74.20 |

# SHAREHOLDING PATTERN:

| Category | %age of shareholding | %age of shareholding | %age of shareholding | %age of shareholding | %age of shareholding |
|---|---|---|---|---|---|
| | @End of FY 21-22 | @End of FY 20-21 | @End of FY 19-20 | @End of FY 18-19 | @End of FY 17-18 |
| Promoters Holding | 45.99 | 45.99 | 45.99 | 45.99 | 45.99 |
| Mutual Funds | 8.42 | 10.78 | 16.27 | 18.12 | 14.29 |
| Foreign Institutional Investors | 10.13 | 11.95 | 9.41 | 9.95 | 14.27 |
| Financial Institutions, Insurance Companies and Banks | 10.65 | 12.53 | 6.44 | 4.95 | 5.16 |
| Retail Investors | 18.04 | 12.76 | 12.44 | 12.02 | 11.35 |
| Corporate Bodies | 5.17 | 4.80 | 8.56 | 8.02 | 8.02 |
| Others | 1.6 | 1.19 | 0.89 | 0.95 | 0.92 |

# CONCLUSION

## ENVIRONMENT, SOCIAL AND CORPORATE GOVERNANCE:

### Environmental Impact:

Exide promotes **recycling programs** to encourage the **collection** and **proper disposal of used batteries**, thereby preventing the pollution of the environment. The company also emphasizes **energy efficiency** and strives to reduce its **carbon footprint**. Exide's dedication to creating cleaner battery technologies, like lithium-ion batteries, helps decrease **greenhouse gas emissions** and push towards **cleaner energy solutions**.

### Social Responsibility:

Through its commitment to **employee welfare**, **community involvement**, **ethical business conduct**, **supplier relationships**, and **philanthropic endeavors**, Exide embodies social responsibility. The company prioritizes **employee well-being** and **safety**, **community engagement**, **ethical adherence**, **responsible supply chains**, and **supports philanthropic causes**, positively impacting employees, communities and the environment.

### Governance:

Exide upholds **robust governance practices** that **foster transparency, accountability, and ethical behavior**. The company complies with all relevant laws, regulations, and industry standards. Exide has a **Code of Conduct** that details the ethical expectations for its employees, directors, and business partners. By adhering to strict governance practices, Exide ensures **responsible decision-making and integrity in its operations**.

Exide Industries has **₹2.82b in net cash** and a decent-looking balance sheet. The price trend analysis indicated the stock to be a bit overvalued but its strong fundamentals make it healthy for long-term investment. Further, its **growth in ROE(%)** over the last year floats it from any debt risks.